



GOVERNOR'S OFFICE OF  
BUDGET AND PROGRAM PLANNING

## Fiscal Note 2009 Biennium

To open, right click on "Select a bill", select Worksheet Object/Edit. To exit, click outside the spreadsheet.

<b>Bill #</b>	HB0289	<b>Title:</b>	State earned income tax credit
<b>Primary Sponsor:</b>	Augare, Shannon	<b>Status:</b>	As Introduced

- |   |   |  |
|---|---|--|
| <input type="checkbox"/> Significant Local Gov Impact     | <input type="checkbox"/> Needs to be included in HB 2             | <input checked="" type="checkbox"/> Technical Concerns   |
| <input type="checkbox"/> Included in the Executive Budget | <input checked="" type="checkbox"/> Significant Long-Term Impacts | <input type="checkbox"/> Dedicated Revenue Form Attached |

### FISCAL SUMMARY

	<u>FY 2008</u> <u>Difference</u>	<u>FY 2009</u> <u>Difference</u>	<u>FY 2010</u> <u>Difference</u>	<u>FY 2011</u> <u>Difference</u>
<b>Expenditures:</b>				
General Fund	\$0	\$0	\$0	\$0
<b>Revenue:</b>				
General Fund	(\$23,499,000)	(\$23,898,000)	(\$24,305,000)	(\$24,718,000)
<b>Net Impact-General Fund Balance</b>	<u>(\$23,499,000)</u>	<u>(\$23,898,000)</u>	<u>(\$24,305,000)</u>	<u>(\$24,718,000)</u>

### Description of Fiscal Impact:

This bill would allow residents who take the federal earned income credit to take an income tax credit equal to 20% of their federal credit.

### FISCAL ANALYSIS

#### Assumptions:

1. This bill would allow resident taxpayers who take the federal earned income credit against their federal income tax to take a credit equal to 20% of their federal credit against their state income tax, beginning with tax year 2007.
2. The most recent IRS data on the earned income credit is for 2004. That year, 74,621 returns with a Montana address claimed \$123,019,000 in earned income credits. Annual growth in the amount of credits in 2003 and 2004 was 1.7% per year. Income limits for eligibility were raised between 2004 and 2007. Average annual growth is assumed to be 2% between 2004 and 2007, to account for more taxpayers being eligible, and then to return to 1.7% in the years after.
3. Federal credits claimed by taxpayers with Montana addresses will be \$130,549,000 for 2007 (\$123,019,000 x 102%<sup>3</sup>). Federal credits claimed by taxpayers with Montana addresses are estimated to be \$132,768,000 for 2008, \$135,025,000 for 2009, and \$137,320,000 for 2010.

4. Some taxpayers who file their federal income tax return from a Montana address are not full year residents of the state and would not be eligible for this state credit. Some taxpayers who are eligible would not claim the credit. Therefore, the amount of state credits claimed will be assumed to be 90% of federal credits multiplied by the 20% credit percentage.
5. This bill applies to tax years beginning after December 31, 2006. Credits for a tax year would be claimed on tax returns filed the following spring. Credits for a tax year will reduce revenue in the next higher numbered fiscal year.
6. Credits for tax year 2007 would be \$23,499,000 (90% x 20% x \$130,549,000), therefore general fund revenue for FY 2008 would be reduced by the same amount. General fund revenue would be reduced by \$23,898,000 in FY 2009, by \$24,305,000 in FY 2010, and by \$24,718,000 in FY 2011.
7. Changes to income tax forms to accommodate this credit would be made as part of the normal annual update process. The Department of Revenue would have no additional costs of administering the income tax because of this credit.

	<b><u>FY 2008 Difference</u></b>	<b><u>FY 2009 Difference</u></b>	<b><u>FY 2010 Difference</u></b>	<b><u>FY 2011 Difference</u></b>
<b><u>Fiscal Impact:</u></b>				
<b><u>Revenues:</u></b>				
General Fund (01)	(\$23,499,000)	(\$23,898,000)	(\$24,305,000)	(\$24,718,000)
<b>TOTAL Revenues</b>	<b>(\$23,499,000)</b>	<b>(\$23,898,000)</b>	<b>(\$24,305,000)</b>	<b>(\$24,718,000)</b>
<b><u>Net Impact to Fund Balance (Revenue minus Funding of Expenditures):</u></b>				
General Fund (01)	(\$23,499,000)	(\$23,898,000)	(\$24,305,000)	(\$24,718,000)

**Effect on County or Other Local Revenues or Expenditures:**

1. None.

**Long-Range Impacts:**

1. The revenue loss from this bill would continue to grow over time after FY 2011.

**Technical Notes:**

1. Section 1(4) refers to “temporary residents.” Taxpayers filing income tax returns are asked to classify themselves as full year residents, part-year residents, or non-residents. Part-year residents may be temporarily in the state or may permanently move into or out of the state during a year. It is not clear whether the bill intends to exclude all part-year residents or to allow part-year residents who made a permanent move during the year to take the credit. This fiscal note assumes that part-year residents would not be eligible for the credit.
2. Married taxpayers must file a joint return to claim the federal earned income credit. Montana allows married couples who file a joint federal return to file their state income tax return either jointly or separately and allows married couples to file separate returns on the same form. It is not clear whether Section 1(3) allows married couples who file separate returns on the same form to claim the credit. This fiscal note assumes they are eligible.

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*Sponsor's Initials*\_\_\_\_\_  
*Date*\_\_\_\_\_  
*Budget Director's Initials*\_\_\_\_\_  
*Date*

